

Testimony of

Bryan Samuel
Acting Assistant Secretary of State
For Economic and Business Affairs

Before the

Senate Committee on Foreign Relations
Subcommittee on Western Hemisphere, Peace Corps,
Narcotics and Terrorism

April 27, 2000

Senator Chafee and Members of the Committee, I am pleased to have the opportunity today to review what lessons we can take from NAFTA and apply to our relations with the rest of the Americas.

I would like to review first the significant successes we have experienced in expanding trade with our two NAFTA partners, Canada and Mexico and in so doing, strengthening the relationships with our North American neighbors. Then I would like to review prospects for extending these successes to the rest of the Western Hemisphere.

NAFTA's Record

The economic benefits of NAFTA are clear. It has generated growth and economic momentum for many regions, communities and individual citizens. NAFTA has helped spur the creation of a North American market characterized by low and declining trade barriers, common standards, enhanced cooperation on labor and environment issues and economic innovation and dynamism. Trade among the three NAFTA countries has grown by 96 percent since NAFTA entered into force in 1994. In dollar figures, our trilateral trade increased from \$289 billion in 1993 to about \$570 billion in 1999.

In expanding trade in North America, NAFTA has contributed to job creation at home. Since NAFTA entered into force, U.S. employment has risen by over 7 percent (12.8 million jobs) and unemployment has dropped from 6.5% to 4.1%. Many of these jobs are tied directly to increased trade, and according to Commerce Department

data, export-related jobs pay an average of 16 percent more than other jobs.

The trade liberalization measures of NAFTA have played a significant role in spurring growth in some of the most dynamic sectors of our economy. For example, the information technology industry now generates over one-third of growth in the U.S. GDP and has benefited greatly from lower barriers in Canada and Mexico. With disappearing trade barriers and greater predictability engendered by NAFTA, companies can plan better and more effectively compete throughout this dynamic market.

NAFTA has shown to the American public, and to U.S. workers, what opening up markets for our products can do. The statistics cited earlier are represented in countless success stories at the individual company level:

-- Coded Communications, a small manufacturer of wireless mobile data communications systems, has seen its employment grow by 25% since NAFTA went into effect, with plans to expand employment by an additional 20% in the next 18 months;

-- Taylor Dunn, another California firm which manufactures electric vehicles, added fifty workers because of increased sales after NAFTA reduced Mexico's tariff on its products from 25% to zero;

-- Farmland Industries of Kansas City, the largest farmer-owned cooperative in North America, which sold \$50 million in wheat, corn and soybeans to Mexico pre-NAFTA, is now exporting \$450 million of its products to Mexico, including beef and pork.

-- Goulston Technologies of Monroe, North Carolina, which manufactures synthetic fiber lubricants, saw exports to Mexico increase 250% since NAFTA began, and accordingly increased its employee base. Tariffs for its product dropped from 15% to zero thanks to NAFTA.

I understand that later in the hearing we will hear from a company in Rhode Island that has benefited from NAFTA-driven trade liberalization.

These successes have been replicated many times over throughout our 50 states. In many respects, NAFTA has created a true North American market.

NAFTA has also changed investment patterns, leading companies from all three NAFTA partners to base their investment decisions more fully on commercial factors alone. NAFTA is eliminating requirements that forced U.S. firms to invest in Mexico if they wanted to sell products and services there. Companies can now more easily spread manufacturing and distribution operations among all of the NAFTA partners. This is leading to higher degree of economic integration across our borders, spurring the economies of all three nations.

A U.S. company building a facility in Mexico, for example, will often need to increase production from its U.S. base to supply it, leading manufacturing operations to become closely integrated across borders. When investment occurs further afield, such relationships are often not as strong. Moreover, the dynamism of the North American market and the greater attractiveness of a larger, more integrated market has helped spur investment levels from all sources. The total stock of foreign direct investment in the NAFTA countries has now reached \$864 billion.

NAFTA has also had the positive effect of mitigating the adverse effects of regional economic downturns, such as what occurred in Asia several years ago. Despite Asia's contraction of purchasing power, NAFTA's reduced barriers permitted us to increase our exports to Mexico and Canada by \$13 billion in 1998. Moreover, the NAFTA agreement means that even during times of economic difficulty such as Mexico's peso crisis in 1994-95, North American markets must stay open to us.

The economic benefits of NAFTA have led to equally important beneficial effects concerning our wider relationships with our North American neighbors. As trade rises to unprecedented levels, we are constantly being brought together to resolve problems and address common challenges. The higher growth and greater employment resulting from NAFTA have also helped to create increased confidence in NAFTA countries.

With respect to Mexico in particular, NAFTA has been instrumental in making necessary economic reforms permanent and irreversible and in reinforcing the rule of law. And it is important to remember that while NAFTA has done much to increase economic integration in North

America, the U.S., Mexico and Canada remain sovereign, each very much in control of our own economic and political destinies.

Labor and Environment

NAFTA has also provided mechanisms and institutions to increase cooperation on labor and the environment.

Environmental issues loom large in our NAFTA relationships, given the shared North American continent and the long borders with both Mexico and Canada. We work closely with both Canada and Mexico to promote cooperation on resolving issues related to boundary waters and controlling transboundary air and water pollution. For example, the North American Development Bank (NADB) is working with the sponsors of 29 certified projects that are applying for financial assistance from the Bank. As of March 2000, the NADBank has authorized \$209 million in loans and/or grant resources for 26 infrastructure projects. These projects will represent a total investment of \$764 million to reduce water pollution and improve health conditions.

Since 1994, through the Commission for Environmental Cooperation (CEC), the U.S., Mexico and Canada have undertaken 36 projects in biological diversity, conservation, sound chemical management, marine ecosystem protection, pollutant reporting, and trade-environment issues. Examples include conservation of the Monarch butterfly, developing the North American Bird Conservation Strategy, and the initiation of a North American Biodiversity Information Network. Under the CEC, the North American Fund for Environmental Cooperation (NAFEC) has awarded 127 community-based grants totaling \$4.8 million to community-based initiatives contributing to the conservation, protection and enhancement of the North American environment.

The North American Agreement on Labor Cooperation (NAALC), the labor supplemental agreement to NAFTA, allows us to advance labor issues and monitor enforcement of labor laws in our trading partners. It also creates a forum for airing public concerns about labor law enforcement directly with governments. Twenty-two submissions have been filed under the NAALC, several leading to ministerial consultations and adoption of work programs to address concerns raised in the submissions.

In 1997, for example, submissions prompted ministerial consultations on freedom of association and safety and health issues. Earlier consultations have led to a trilateral conference on the labor rights of women in North America, and a work program of trilateral seminars on union registration, certification, elections, recognition and union democracy.

And of course, NAFTA has been instrumental in creating new higher-paying jobs, not just in the United States, but also in Canada and Mexico. This has led to increased demand for U.S. products and services from consumers throughout North America.

Extending NAFTA's Success to the Rest of the Americas

We are now in the process of building on the success of NAFTA to create a hemisphere-wide Free Trade Area of the Americas, encompassing all of the democracies of the Western Hemisphere. When completed in 2005, the FTAA will be the largest free trade zone in the world, establishing a market exceeding \$10 trillion, with more than 800 million people. It will further enhance trade within our hemisphere, which already accounts for 47% of our total trade.

The dramatic changes in Latin America over the past decade have made such an initiative possible. Throughout the hemisphere, countries have moved from outdated economic models emphasizing state control, closed markets and import substitution to privatization and open markets where foreign trade and investment are welcome. Just as important, democracy and the rule of law are now very much the norm rather than the exception.

In opening up their trade regimes, nearly all countries in the Western Hemisphere have participated in establishing a wave of trade groupings that have dramatically lowered barriers and contributed significantly to economic growth and political stability.

Yet the transition to free markets is incomplete and there is danger of drifting backwards. Unforeseen events have also taken a toll. In recent years, many Latin countries have been severely affected by hurricanes, El Niño, the fallout from the Asian economic crisis and the subsequent decline in commodity prices. Clearly, a hemispheric-wide trade agreement would help to strengthen

market economies while providing welcome new access to Latin American markets.

The leaders of the Americas have already made much progress in building a more integrated and prosperous hemisphere. In two Summits of the Americas, leaders have set out numerous far reaching goals, including a program of universal education, access to modern telecommunications and the Internet, cooperative programs of environmental law enforcement, crime and narcotics control, and anti-corruption measures. At their December 1994 summit, they made the historic decision to create the FTAA by 2005.

FTAA

In taking part in the FTAA negotiations, the administration is applying the many lessons we learned in establishing the NAFTA. For instance, prior to the launching of formal negotiations, the 34 FTAA countries met regularly to discuss existing trade regulations and practices in the hemisphere and began to identify issues for negotiation. Nine negotiating groups and three committees were formed, and actual negotiations began in September 1998. Since then, negotiators have been meeting in Miami nearly every week.

The negotiators created annotated outlines for the proposed chapters of an FTAA agreement in time for last November's Ministerial meeting in Toronto and are now working on a draft text. The ministers in Toronto also approved a package of meaningful and practical business facilitation measures that is already being implemented. The measures are mostly in the critical customs area, and should do much to promote commerce throughout the hemisphere.

The nine FTAA negotiating groups, which range from market access and agriculture to competition policy, have as broad goals reducing trade barriers, facilitating trade and establishing clear rules. The FTAA aims to eliminate tariffs, establish better protection of intellectual property and encourage competition, transparency and impartial regulation of the services industries. The FTAA will also create an effective means of resolving trade disputes. All of these measures will greatly expand consumer choice, lower prices and spur innovation.

In addition to the nine negotiating committees, the FTAA has established three other groups whose mandate is to take into account the special challenges of negotiating a trade agreement in the 21st Century. An e-commerce committee is working to identify how trade rules might best address the interests of consumers and business in this rapidly growing sector. Another committee is specifically focused on the needs of smaller economies while the third is designed to advise governments on the views of business, labor, consumers, environmentalists, academics and other citizens groups. The establishment of this Civil Society committee, for which I am the U.S. lead, is unprecedented in any major trade negotiation.

Through the reduction of trade barriers and the institution of fixed and clear rules, the FTAA will strengthen the values of openness, accountability, and democracy.

CBI

Before I conclude, I would like to take the opportunity to mention a related issue, the bill to enhance the Caribbean Basin Initiative (CBI), which along with the companion Africa Growth and Opportunity Act, is currently in conference. Since its inception in 1983, CBI has encouraged the countries in the Caribbean and Central American region to diversify their industries by providing preferential access to the U.S. market. It is a key component of the Administration's strategy to help the countries of the region strengthen democratic governance through economic development.

The existing program has been a great success for the both the U.S. and the region, with annual two-way trade now topping \$40 billion. Enhancing the CBI will enable Caribbean nations to compete more effectively while providing better opportunities for U.S. exports. Passage of this measure would support favorable economic and political trends in the region and also help enable these countries to undertake the obligations of an FTAA agreement.

Conclusion

We have achieved much during the six years NAFTA has been in effect. In increasing economic growth and stability in North America and strengthening the bonds of friendship and cooperation across the continent, NAFTA has served U.S. interests well.

An FTAA will provide similar benefits on a hemispheric basis. We intend to continue to move vigorously to bring this process to fruition by the 2005 target date. We look for your support.

Thank you for the opportunity to testify today. I would be pleased to respond to any questions you or other members of the Committee may have.